

# Fiscal Decentralization and Fiscal Autonomy in Tanzanian Local Government Authorities: A Review of Existing Literature and Empirical Evidence

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## Abstract

Local governments are very important in providing public social service, such as water, health, education and road infrastructures to citizens. In order to ensure efficient provision of these public services, local governments need to be having strong mechanism of governance. Fiscal decentralization in relation to the local government is considered as an important means of the system of governance. Local government authorities collect roughly five percent of all public revenues and are accountable for about twenty percent of public spending. With the understanding of the significant role of local governments, policy and decision makers need to ensure strong and stable local financial management system. Also, strong efforts need to be directed to internal revenues mobilization. Principally, local government recurrent expenditure is supposed to be covered by local government's internal revenues but surprisingly more than ninety percent of the same is covered by inter-governmental transfers which in one way or another might interfere fiscal autonomy of the local government. Decision and policy makers are argued to enhance sources of revenues in local governments to enable them to bridge fiscal vertical gap between revenue generated and total local recurrent expenditure. Also proper designing of local government fiscal policy should take into account the component of inter-governmental transfers.

**Keywords:** Fiscal Decentralization, Fiscal Autonomy, Local Government, Social Services, Inter-governmental Transfer.

## 1.0 Introduction

Public sector organization has experienced significant changes in operations and ownership structure which are associated with the number of reforms introduced in the sector. These changes to the large extent advocate decentralization and the adoption of the private sector financial management system. Fiscal decentralization entails the transference of government fiscal responsibilities to lower levels of the government (Akai and Sakata, 2002). The decentralization agenda increases the central government's control on the activities of the low levels to ensure that the funds channeled to them are used efficiently (Rose and Miller, 1992).

The decentralization of local government authorities in Tanzania has its roots from the local government reform program (LGRP) which started as a result of the discussion between the United Republic of Tanzania and the donor community early in 1997. The local Government Reform Program was then launched when the Government presented its Local Government Agenda to the interested donors (Braathen, Chaligha, and Fjeldstad, 2005). In Tanzania, the coordinating organ responsible for local Government is President's Office-Regional Administration and Local Government (PO-RALG).

Most of the governments, particularly in developing countries are decentralized to enable smooth provision of public services. Since 1990s, most developing countries initiated the process of decentralization that involved political, administrative and fiscal aspects. Fiscal decentralization as a process, involves transferring of revenue and expenditure responsibilities from the central government to sub-national governments (Salman and Iqbal, 2011). Decentralization is advocated by the major organs such World Bank, Inter-American Development Bank, USAID and IMF (Bahl, 1999). These most powerful organs in the world have advocated for decentralization with the idea that it can enable the central government to service her citizens in their local government locations.

The process of transferring some of the administrative responsibilities from central government to sub-national government in one way another can help the community within a given area to get involved directly to the local development activities. According to Kotsogiannis and Schwager, (2008), decentralization is said to enhance financial accountability of local governments, and as a results of fiscal equalization, citizens attach more importance to any variations in the supply of public goods and hence they punish more severely all those who involve in misusing of public resources. The direct involvement of the citizens in the local government activities such as planning and development helps to secure or to make government official more accountable.

Public officials are entrusted with the public resources including financial resources; therefore they are

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supposed to act more courteously to ensure smooth delivering of services to the citizens at the maximum satisfaction level. It should be noted that the performance of any local government is measured in terms of service delivery to its people in the area of their jurisdiction and the performance of financial management in the development projects. Some of the key services offered are health services, water services, education services, and infrastructure services. All these services can be offered if and only if all public officials will work in truthfulness environment and adhering to financial accountability mechanisms. Financial accountability mechanism is machinery that helps to make public officials in this case local government officials accountable to the decision made on the utilization of public resources for the provision of public services and to ensure that value for money is achieved in all development projects.

## **2.0 General Aspects of Fiscal Decentralization and Local Governments**

### **2.1 Concept and Evolution of Decentralization**

Many scholars have defined the term decentralization in various ways; some of them have linked decentralization with political influence while some of them have considered the chain of command of the Central Government and alike. Generally, when someone hears about decentralization his mind goes directly to the sub national government authorities. The key issue in this study is the management of public resources and maximization of service delivery to the citizens. It should be noted that the key role of any Government is to provide required services to her citizens. Some of the services are health services, education services, infrastructure services, water services and all other services which in one way or another are very important for the welfare of the citizens. Decentralization has been defined by many scholars (Islam, 2012; Devkota, 2013; Pancho, 2014 and Samadi, et al; 2013) as a transfer of managerial responsibilities from central government to lower level of the government; the local government in the case of Tanzania.

Also, Renu, (2014) defines decentralization as a transfer and distribution of functions and powers to lower levels of the government. Moreover, Karanikolas, and Hatzipantel, (2010) explain decentralization as an enduring process with substantial impact at the institutional, administration and political level. Decentralization involves many policies such as rural development policy, rural project policy, and other policies which guide local government to provide quality social services. It is clear that decentralization has numerous roles in the local government's service delivery, financial accountability and financial stability which can help to reduce the dependency on central government through intergovernmental transfer. Also decentralization is a key source of local government's operational transparency through direct involvement of local officials and local community in crucial roles of development and social service delivery.

Akudugu, (2012) and Dorian (2010) define decentralization as devolution of power, authority and resources from central government to sub-national governments. Decentralization in other words can be explained as administration framework which forces government to be more accountable, improving efficiency and responsiveness of the public sector to the needs of the citizens in the area of their jurisdiction (Ekpo, 2008). Also, decentralization is an integral part of the contemporary governance at the central, provincial and at the local government level (Devkota, 2013). It is a prominent managerial strategy that aims to bring services closer to the community (Balungwa, et al; 2014).

Decentralization in Tanzania is aged more than a decade now since its initial implementation process started early in 1998 after the establishment of the Local Government reform Programme (LGRP). The main objective of this public reform sector was to enhance transparency, autonomy and accountability in the Local Government operations with the main objective of improving service delivery to the local community. The program then aimed at local operation openness, allowing participatory planning process and also to have full autonomy in revenue mobilization and local spending. Lufunyo, (2013) analyzed the impact of public sector reform on service delivery in Tanzania. In his analysis, he found that public sector reform program (from centralization to decentralization) have positive significant impact on the service delivery. However it was also argued that central government needs to give fully support in helping to resolve some of the changes of public reform sector (ibid).

Currently, Tanzanian local governments are operating under the managerial system of decentralization by devolution famously known as D by D. As noted by Rondinell et al (1983) cited in Ringo et al (2013) decentralization by devolution is the managerial system that helps to strengthening local governments to operate legally and to have full autonomy and expenditure mandate for all local operational activities. Devolution creates a sense of local government to be separate and independent from central government.

Decentralization by Devolution in Tanzania has a number of challenges particularly at grass root level of the local government (Norman and Massoi; 2009). The main challenge of this system is how to involve citizens in the planning process from village (street) level, ward level and at the district level. Community involvement in the planning process is very crucial to the smoothly implementation of various projects which helps in the provision of quality of social services at the local level. The cornerstone of the community involvement creates ownership environment and thus enforce local citizens to engage directly to the

implementation of the local projects such as health projects, water projects and education projects.

Boxe and Muga (2009) noted that local government, which implements effective decentralization by devolution through community involvement on planning process, budget execution and better project implementation, has a greater chance to enhancing local financial management outcomes. It is clear that the level of transparency and accountability will automatically be achieved and makes local officials more accountable in the revenue mobilization and spending responsibilities. King (2014) observes a high level of transparency on the implementation of local government activities and in the process of decision making in Mbeya district. On the same basis, Ringo and Mollel (2014) argue that in order to build a strong and effective decentralization, the Government of Tanzania is fundamentally required to seek for new strategies and mechanisms for making decentralization a reality process.

The Government of Tanzania is argued to provide full support for encouraging community participation in the whole process of development activities at the local level. However, decentralization does not come without dangers (Boetti, Piacenza and Turati; 2010). The hazard of decentralization is caused by the opportunistic behavior of the local communities. Knowingly that local budget cannot be covered fully by internal revenue; there is a possibility of misusing funds due to the proposition that central government will cover for some other expenditure at local level.

The method which is generally used to complement the sub national government budget is intergovernmental transfers. In order to weaken this danger of decentralization, Tanzanian central government has introduced formula based grant to transfer fund from central government to local government (Boex and Vazquez; 2003). This approach is expected to reduce the possibility of misuse of financial resources and force local government official to act more accountable to the public resources. Most of the sub-national governments are faced by the problems of strengthening public financial management system in their local area. The major concern of the local government reform was to enhance financial management practices in general and fiscal autonomy in particular. Financial management system through internal control is very crucial in the whole process of development and also in the whole process of providing social services to the local community.

## **2.2 Legal Framework of Tanzania Local Government Financing System**

The principal act governing the financial operations of all local authorities in Tanzania is the Local Government Finance Act No. 9 of 1982, which has its purposes “to make provision of revenues and the management of funds and resources of local government authorities, and for other matters connected to or incidental to securing the proper collection and sound management of finances in the local government system”. The relevant sections concerning financial management and control are contained in Part IV of the Act (section 33-51 and in particular section 40 and 41). Section 40 (1) of the Act requires Local Government Authorities’ to keep and maintain proper books of accounts to record the following; (i) The receipt and expenditure of moneys by the Local Government Authority (ii) The assets and liabilities of the Local Government Authority.

Section 40 (2) further states that “all books of accounts and records of all local government authorities shall be kept and maintained in a form and manner as may be prescribed in financial memorandum”. Section 41(2) reinforces the provisions of paragraph 40(1) in respect of producing annual financial statements by requiring “within such period as may be directed by the minister responsible for local government administration from the end of financial year, every local government authority shall cause its accounts of the preceding financial year to be balanced and a balance sheet (statement of financial position) with respect thereto, and a statement or abstract of those accounts to be prepared”. Other regulations and guidelines which are used by the LGAs as a part of financial management are Local Authority Financial Memorandum (1997) and Local Authority Accounting Manual (LAAM). In order to strengthen local government financial management system, the above regulations have also been amplified by Order 11 through 14 of the LGFM, 2009 which requires LGAs to establish and support a sound system of internal control as a part of financial management.

In addition, Order 31 requires LGAs’ management to prepare financial statements in accordance with the laws, regulations, directives issued by the Minister responsible for Local Governments, the LGFM and the IPSASs accrual basis of accounting. Apart from the responsibilities on the preparation of the financial statements, Sect.49 of the LGFA No. 9 of 1982 (revised 2000) and Order 31 (9) of the LGFM, 2009 requires every LGA to publish the audited financial statements within their areas of jurisdiction. Furthermore, Order 31(1) of LGFM, 2009 and Sect 45(4) of the Local Government Finances Act 1982 require the accounting officer to prepare the final accounts and submit them to the Controller and Auditor General (CAG) for audit purposes on or before 30th September of every financial year. Also in order to enhance transparency and accountability in Local Government Authorities, Sec. 49 of the LGFA No. 9 of 1982 (RE revised 2000) and as amplified by Order 31 (9) of the LGFM, 2009 requires that every LGA shall at its own offices and in such other manner as may be directed by the Regional Commissioner, publish within its area of jurisdiction the following: (i) The audited consolidated statement of financial position (balance sheet) and statement of financial performance (income and expenditure) - abstract of accounts; (ii) Any report on the accounts made and signed by the auditor, within six months after

closure of the financial year to which the accounts relate or within six months of receipt of the report of the auditor, as the case may be.

The main objective of publishing audited consolidated statement of financial position and statement of financial performance is to make people (citizens) more aware about the general position of the local government financial management and if possible to take corrective measures directly or indirectly through general elections. As it has been seen above, there are number of legal provisions which in one way or another help to enforce operational transparency and accountability in LGAs. The LGAs are subjected to all these legal provisions in order to make sure that value for money for all service delivery and also for all projects undertaken within the area of their jurisdiction is achieved at maximum level. For all these guidelines of financial management, it is thus logical for the public to expect fiscal transparency and accountability for the public resources entrusted to LGA officials. Also the adoption of the above legal framework of financial reporting and publication of the financial statements can help LGAs to enhance transparency and accountability<sup>1</sup> in the use of public fund and other public resources.

### **2.3 Fiscal Decentralization, Fiscal Autonomy and Fiscal Transparency**

In recent years, key advocators of public sector financial management such as World Bank and International Monetary Fund (IMF) have exercised much effort in supporting public financial management reforms in developing countries with the intention of strengthening the ability to control public resources (Helger and De-Renzio; 2010). Controlling of public resources has become the major concern mostly in developing countries, Tanzania being among them in this major concern. World Bank (1998) as cited in Mohammed (2014) pointed out clearly that the main objectives of public sector financial management are to ensure aggregate fiscal disciplines, allocation of resources and to ensure proper utilization of public resources in an efficient and effective manner.

Public financial management helps to direct public financial resource in accordance with strategic priorities as approved by government budget. Also Satta and Pennink (2013) argue that following the public financial management reforms; accountability and transparency in the utilization of public funds are now regarded as a legal requirement by Tanzania Government and Development Partners (DPs). The effectiveness of public financial management can be assessed by three aspects namely fiscal decentralization, fiscal autonomy and operational transparency. These three attributes are normally used to assess the performance or challenges of public financial management at the local governments.

Fiscal decentralization is defined as system that involves transfer of fiscal responsibilities and local government finances from central government to sub-national government that emphasizes equitable and transparency revenue mobilization and capital development grants (Satta and Pennink; 2013). Also, according to Boschmann (2009) and Kokor (2003) fiscal decentralization involves transfer of responsibilities, power and authority from central level of government to sub-national level of government. Such transfer involves local decision making on the allocation of financial resources and authority to levy taxes at the local level. Fiscal decentralization allows sub-national government to control both revenue mobilization and spending responsibilities at local level. It is a very important form of local governance that legally allows local government to mobilize local revenue and also to consider provision of public social services at the local environment. Local governments are given powers to raise and retain financial resources for fulfilling local responsibilities (Yulian, 2004).

Moreover, fiscal decentralization constitutes some policies intended to raise local revenues and also to increase fiscal autonomy (Falleti, 2005). Fiscal decentralization system helps to control decision on expenditure of revenues generated locally and also for the revenue transferred from central government to local government (Egbenya, 2010). Fiscal decentralization works as framework that encompasses rules, regulations and all other fiscal procedures that help to safeguard local public resources. "Elements under fiscal decentralization include expenditure allocation, revenue allocation, intergovernmental transfers, borrowing, planning and budgeting, financial management, regulatory and accountability relationship" (Kokor, 2003 p1). All these elements of fiscal decentralization give proof on how sub-national governments work as autonomous body in providing social services to local citizens.

Planning, budgeting and financial management are key elements that are expected to enhance financial accountability through participatory scheme for local officials and local citizens. Local citizens take part in the local financial system through their direct involvement in the planning and development activities. Having known the concept, operational framework and elements of fiscal decentralization, can be think about the rationale of instituting fiscal decentralization at the local government. Fiscal decentralization system has incentive to lower levels of the government and encourage them to commit public resources effectively and efficiently by tailoring local resources to local public needs (Moldogaziev, 2012). This approach is assumed to

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<sup>1</sup> Controller and Auditor General (CAG); General report of Local Government Authorities for the year 2012/2013



take strong part in eliminating unnecessary waste and other related costs originated from centralized system.

Another view that can be drawn from fiscal decentralization and as a key aspect of fiscal decentralization is fiscal autonomy. One of the objectives of the Local Government Reform Policy (1998) in Tanzania was to make local governments autonomous bodies politically, financially and administratively. The main focus of the local government reform was on public financial management system, focusing on new ways of managing public resources at local level of government aligning with provision of public services. Chapman (1999) explains fiscal autonomy as the ability of the local government legally to mobilize revenues locally and determine how to spend the revenues at local level without being interfered. Local governments are given autonomy to collect local revenues and to finance social services depending on the needs of the local citizens in their area of jurisdiction.

Also fiscal autonomy allows sub-national government to control resources and the ability to expend those resources in the way that reflect local citizen's tastes and choices (Chapman, 1999). Moreover, it is claimed that the design of fiscal autonomy affects local government behavior in determining outcome of public sector efficiency, equity in access to social public services and long term fiscal position (OECD, 2006). Fiscal autonomy should be designed in a way that can enhance and promote discipline for all local public resources. A good decentralized government with a degree of fiscal autonomy has incentive to work closely towards the needs of the citizens by adjusting their size of budgets and establishing how total local expenditure will be distributed (Mikesell, 2007) as cited in Moldogaziev (2012).

The fiscal transparency is very important for both fiscal decentralization and fiscal autonomy. Fiscal transparency is advocated by strong organization in the World such as World Bank, International Monetary Fund and OECD<sup>1</sup>. According to Granickas (2013) fiscal transparency is advocated by IMF and OECD in various ways. For example IMF supports fiscal transparency through code of good practices on fiscal transparency, manual on fiscal transparency and guide on resource revenue transparency. OECD supports and encourages fiscal transparency by insisting best practice guidelines on budget transparency. Also World Bank advocates fiscal transparency through publication reports on observation of standards and codes (ROSC) for the codes of best practice for fiscal transparency. Moreover, fiscal transparency is insisted by internal mechanisms of respective countries through various rules and regulation that govern public financial management. For instance in Tanzania, fiscal transparency is supported by the LGFA No. 9 of 1982 (revised 2000) and as amplified by Order 31 (9) of the LGFM, 2009 which requires LGA to publish financial statements within six months after receiving auditor's report. All supportive factors of fiscal transparency including rules and regulations of the respective countries aim to promote and boost accountability (Piotrowsk, 2007).

Having recognized the internal perspective of fiscal transparency, we can now explain transparency, government transparency and fiscal transparency by considering access to information of public issues. Access to information is very important in the government operations due to the idea of public ownership. Piotrowsk (2007) defines government transparency as ability to know what is taking place inside of the public sector organizations. The openness in public sector can be enhanced through open meeting, access to records, posting information on websites or even illegally leaked information. Through all these means of achieving transparency, people (citizens) can monitor and even to question the utilization of public resources. The access and release of information publicly can help to secure and promote accountability.

Grimmelikhuijse (2009) defines transparency as an active exposure of information that allow external actors (citizens) to monitor internal workings and performance of public sector organizations. Andersen and Nielsen (2008) explain fiscal transparency as the degree to which general public gets access to authentic information about the public sector's budget matters. Additionally, fiscal transparency can be used to represent total disclosure of fiscal information in a given time and in a systematic manner (De-Simone, 2009). The clarity, reliability, frequency, timeliness and relevance of public fiscal reporting are key attributes of fiscal transparency that enhance openness in public-policy making process (IMF, 2012).

In order to promote public accountability for the assurance of effective and efficiency use of public resources, sub-national governments need to emphasize fiscal transparency in all local operations. Fiscal transparency can be emphasized and promoted through medium term fiscal strategies, development plans, annual budgets, financial statements and CAG reports (Premchand, 2001). Through these key tools of fiscal transparency, the general public can understand internal operation of public sector particularly for the management of public resources. The practice of transparency enables the central government and the general public to see evidence of achievement for value for money.

### 3.0 Review of Literature:

Karanikolas, and Hatzipantel, (2010) conducted the research on the impact of decentralization on rural development. Their study found that despite remarkable decentralization efforts of rural development in Greece,

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<sup>1</sup> OECD stands for Organization for Economic Co-operation and Development

decentralization seems to maintain its primary stage of implementation. This study found negative response on the implementation of decentralization despite the strong support from strong organizations such as IMF and World Bank. Also, Okpala, (2012) in his study on the accountability dilemma in Nigerian public sector found weak accountability infrastructure, poor regulatory framework and weak attitude of public officials on the key aspects of accountability. The author recommended that citizens and professional bodies should work together in order to build an important effect resolution on the fiscal accountability position of Nigerian public sector.

Moreover Arikan, (2004) and Syamsul, (2003) explained the important role played by fiscal decentralization system in combating corruption. This empirical study showed that effective and strong fiscal decentralization has a greater chance of reducing if not completely removing corruption due to the involvement of citizens in the whole system of responsibilities and planning. Similar study was conducted by Fisman, and Gatti, (2002) to assess the effect of decentralization on the level of corruption. They argued that the rate of prosecutions for abuse of public officials increase as a result of higher federal transfer. It was further argued that larger intergovernmental transfer attracts abusing of public recourses. Hence, it is advised to give full autonomy for the sub-national government to mobilize internal revenue in order to reduce the gap between internal revenue and the local expenditure.

TaoZhang, and Zou, (1998) and Breuss, and Eller, (2004) conducted their study on how fiscal decentralization affects economic growth. The study findings indicate that a high degree of fiscal decentralization of government spending has lowered economic growth rate. These results are very surprising due to the fact that fiscal decentralization has positive impact on the economic growth possibly due to the strong involvement of local government citizens as reported by Lin and Liu, (2000) and Sakata, (2002). In their study, Frumence et. al (2013) found that decentralization is a very important process in the general operational and prosperity of the local government. Their study revealed that decentralization has increased autonomy in local resource mobilization and utilization and also has enhanced participatory planning which is the key aspect of fiscal decentralization.

Having examined the existing review of the earlier studies made so far, it can be concluded that there is a mixed and inconclusive findings, and therefore the current study aims at to review the fiscal decentralization and fiscal autonomy in Tanzanian Local Government Authorities by considering the existing theoretical base and also empirical evidences available. Also, authors address some challenges of the Tanzanian fiscal decentralization with respect to the local government operations and financing system.

### **3.1 Methodology of the study**

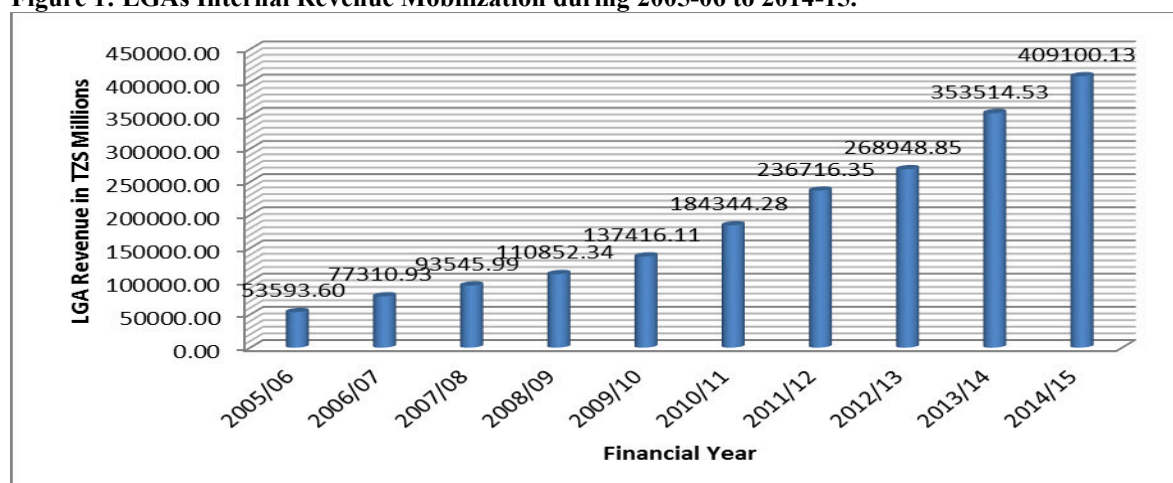
This is a desktop study which considers the secondary sources of data (published and unpublished) such as performance reports, NGO reports and Controller and Auditor General (CAG) reports on local governments. Also the study has made use of library services to add on the academic stock in fiscal aspects of decentralization. In undertaking this study authors conducted a rigorous literature review including the use of library and e-journals. The paper is therefore purely based on desktop and library research methodology. In this regard various journals and research papers and paper articles germane to local government financing and fiscal policy have been surveyed in order to achieve objectives of the study. Also, the study has surveyed in greater detail various government reports which show the role of Tanzanian local government authorities.

### **4.0 Analysis of Fiscal Decentralization and Fiscal Autonomy in Tanzanian Local Government Authorities (LGA):**

Broadly speaking, Tanzanian Local Government Authorities finance their operations from notably three main sources, namely internal revenue mobilization, intergovernmental transfers from central government and borrowing. However the former two are the key sources of finance in sub-national government. Ame et. al (2013) argue that Tanzanian LGAs operations are affected by under-financing which inhibits them from fulfilling constitutional responsibility of providing public social services at local level. Therefore, due to the problem of under-financing, LGAs managements are advised to diversify sources of revenue to avoid highly dependency from central government.

The argument that increased fiscal autonomy will improve efficiency and responsiveness in providing public social services must be thought and taken with caution (Fjeldstad and Semboja; 2000). Increased fiscal autonomy can raise concerns on the stability of financial management system given the situation of the staffing at local governments authorities, however the situation can be thought about and consider fiscal autonomy as significant aspect of fiscal decentralization. It is true that local governments need to be free in mobilizing revenues, but the efforts of mobilizing internal funds must match with the social services provided. Fiscal autonomy as an important feature of fiscal decentralization enables local government authorities to minimize vertical fiscal gap. Currently, vertical fiscal gap is filled by central government through intergovernmental fund transfers.

**Figure 1: LGAs Internal Revenue Mobilization during 2005-06 to 2014-15.**



Source: Compilation from the CAG Reports on Local Governments

Figure-1 shows the LGAs internal revenues for ten financial years during 2005-06 to 2014-15. The trend of the revenues above shows impressive increase of revenues, however local governments are urged to increase efforts in revenue collection to enable fulfillment of the constitutional obligations of servicing local citizens. Generally, there is an average increase of twenty percent in revenues from year to year; this trend promises great achievement in the near future, but what needs to be done is to empower more revenue sources to local government authorities in order to stabilize financial resources. More revenues sources need to be empowered to local governments in order to achieve the objective of fiscal decentralization of reducing reliance from inter-governmental transfers from central government.

**Table 1: Comparison of LGAs Actual Collection against Budget (TZS)**  
(Amount in TZS)

Year	Approved Budget	Actual Collection	Performance (%)
2009/10	145,912,420,191.00	137,416,106,722.00	94
2010/11	183,470,314,765.00	184,344,284,252.00	100
2011/12	297,383,435,946.00	236,716,345,736.00	80
2012/13	310,707,485,716.00	268,636,147,917.00	86
2013/14	400,389,496,906.00	353,530,397,453.00	88
2014/15	471,192,301,516.00	409,100,130,028.00	87

Source: Compiled from the CAG Reports on Local Governments

Table-1 shows the data on the comparison of LGAs actual collections against approved budget. The analysis depicts that LGAs performance on revenue collection against budgeted revenues is very promising and on average the performance rate is eight nine percent (89%). However, performance on approved budget does not mean that LGAs have exhausted all available revenues sources. More effort is required to identify more revenues sources in order to collect sufficient revenues to cover recurrent expenditure on public services such as water, health, road infrastructures and education

**Table 2: Comparison of Internal Revenues against Recurrent Expenditure (TZS)**

Year	LGA Recurrent Expenditure	LGA Internal Collections	Expenditure Covered by LGA Revenues (%)
2007/08	1,189,976,694,546.00	93,545,987,812.00	8
2008/09	1,465,771,214,126.00	110,852,341,512.00	8
2009/10	1,823,788,009,947.00	137,416,106,722.00	8
2010/11	2,153,971,770,095.00	184,344,284,252.00	9
2011/12	2,277,053,217,362.00	236,716,345,736.00	10
2012/13	2,746,333,799,161.00	268,948,851,548.00	10
2013/14	3,264,872,488,097.00	353,514,526,384.00	11%
2014/15	3,569,212,750,970.00	409,100,130,028.00	11

Source: Compilation from CAG reports on Local Governments (2007/08-2014/15)

The comparison of LGAs recurrent expenditure and LGAs internal revenues indicate that on average nine percent (9%) of the recurrent expenditure is covered by internal revenues. This analysis shows further that about ninety percent (91%) of the LGAs recurrent expenditure is financed by intergovernmental transfers which show heavily dependence. Surprisingly, the objective of the fiscal decentralization is to reduce reliance on

national government, thus strong effort is required to empower more revenues sources to local government authorities.

## 5.0 Conclusions:

Local governments are very important in providing public social service such as water, health, education and road infrastructures to local citizens. About twenty percent of the recurrent expenditure is spent on local governments. Keeping in mind all the issues concerning local governments, policy and decision makers must ensure strong and stable local financial management system. Also, strong efforts need to be directed to internal revenues mobilization. Principally, local government recurrent expenditure is supposed to be covered by local government's internal revenues but surprisingly more than ninety percent of the same is covered by inter-governmental transfers, which in one way or another might compromise the fiscal autonomy of the local governments. Decision and policy makers are argued to enhance sources of revenues at local governments to enable them to bridge fiscal vertical gap between revenue generated and total local recurrent expenditure. Also proper designing of local government fiscal policy should take into account the component of inter-governmental transfers from central government. It has been claimed that raising local government's fiscal autonomy, might attract misuse of public resources and corruption. However, fiscal autonomy is very important and a key aspect of fiscal decentralization and local governance in general. Increased local government' fiscal autonomy should match with strong financial management system that ensures proper use of public resources and increases confidence of tax payers on government dealings.

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